

1 How Innovation Shapes the Spa Industry and Determines its 2 Evolution

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4 Received: 9 December 2013 Accepted: 2 January 2014 Published: 15 January 2014

5

6 **Abstract**

7 This paper pursues the creation of theory that helps in the understanding of how the spa
8 industry innovates and how innovation impacts its evolution. Methodologies employed include
9 literature review, analysis of a sample of spas, and case study research on a European spa
10 company. Conclusions highlight that easy to imitate innovation shapes the industry which
11 makes first movers advantage vanish very quickly, since the emergence of dominant design at
12 maturity does not deter new entrants. This brings about a scenario of high intensity
13 competition that may be overcome through the development of innovative low-cost business
14 models based on critical industry success factors such as spa design with more emphasis on
15 collective use, standardization of service providing and product bundling.

16

17 **Index terms**— innovation, spas, product life cycle, business models.

18 **1 Introduction**

19 pas have existed since ancient times. Fans of "taking the waters" or, more recently, wellness seekers have been
20 the target of reinvented business modalities of dealing with the human need for getting away from it all or the
21 desire to be forever young.

22 The International Spas Association ??ISPA 2002 ??ISPA -2008)) defines spas as places meant to provide
23 wellbeing through professional services that allow the renewal of mind, body and spirit. The current and
24 predominant spa business model is the amenity spa (the "wellness area" is an ancillary service), due to its
25 offering of a more comprehensive experience than the traditional destination spa (Mak et al, 2009; ??eri et al,
26 2007). Travellers whose main motivation is not wellness (those who usually attend amenity spas) represent 87%
27 of wellness tourism trips (Stanford Research Institute, 2013). The Global Wellness Institute and the Stanford
28 Research Institute (2013) emphasize that the wellness or spa industry accounts for \$438.6 billion, which represents
29 14% of all domestic and international tourism expenditures.

30 Several organizational theories have dealt with how industries or firms evolve from a dynamic (the PLC or S
31 Curve, ??ewitt, 1965 ??ewitt, -1966)) or a static (Five-Forces Framework, Porter, 1980; Business Models, Zott et
32 al., 2011) viewpoint. Anita Mc Gahan ??2000) stresses that both approaches are not enough to explain industry
33 evolution and predict profitability. This is related to the Author: e-mail: jvazquezilla@gmail.com pattern of
34 innovation present in each industry. A similar position to Mc Gahan's is maintained by Abernathy & Clark
35 (1985), who affirm that industries grow according to four different models of innovation which are closely linked
36 to different managerial environments and evolution processes.

37 The study of the spa industry according to the PLC and business model theories has evidenced that both
38 constructs have not entirely elucidated its evolution (Vazquez-Illa, 2014). The kind of innovation present in the
39 spa industry is clearly pointed out as the reason for its high competitive intensity and the industry's partial
40 nonconformity to PLC theory. Early entry into the industry, size, and the achievement of a dominant design at
41 maturity does not deter new entrants which eventually increases rivalry among incumbents. The competition is
42 further reinforced by the fact that real estate investments are not easily discarded when confronted with a crisis
43 (PKF, 2009). New entrants are attracted to the industry by the apparent ease in gaining a position in the market
44 (Vazquez-Illa, 2014) as a result of the short-lived dominant designs in the industry.

6 D) PROPOSITION 4

45 All the mentioned factors lead to pose the question of how innovation shapes the spa industry and how it
46 determines its evolution. This paper aims to answer this question.

47 Employed methodologies are literature review, an analysis of a sample of European and American spas, and an
48 in-depth case study on a European spa company. Research methodologies include both primary and secondary
49 web-based approaches. More than 50% of Spain's resort spas or spa resorts, plus the ten most distinguished
50 European and North American destination spas have been subject to direct observation.

51 The use of qualitative methodologies is a result of the embryonic state of research on this sector and,
52 consequently, the lack of a commonly-shared theory to aid in the explanation of the whole phenomenon that
53 would justify deductive methods. Abercrombie et al. (1980), ??in (1984), Eisenhardt (1989) stress the usefulness
54 of the casestudy in the preliminary stages of research because it allows the development of hypothesis that
55 eventually may be proved with a higher number of cases.

56 Although qualitative methodology is mainly reserved for the development of theory by using the inductive
57 method, this does not deny the principle Consequently, the work is structured in the following way. First,
58 theoretical propositions are developed. Second, the illustrative case of the Company Terma Europa Spas is subject
59 to analysis to unveil how the company deals with innovation. Third, a discussion on spa industry conformity
60 to the propositions is carried out. Fourth, innovative proposals on spa business models are introduced. Finally,
61 conclusions are drawn.

62 Conclusions underscore that easy to imitate market niche innovation (Abernathy& Clark, 1985) shapes the
63 industry, bringing about a scenario of high intensity competition due to the low entry barriers. As a result, early
64 entry and size do not become crucial factors in imposing a dominant design and defending a position in the
65 market since innovation is mainly introduced by new entrants. On the other hand, market-pull innovation rules
66 the industry because of its multiple customer contacts. The design of low-cost and low-luxury models whose
67 choices incorporate the industry's critical factors of success (spa design with more emphasis on collective use,
68 standardization of service providing, and product bundling) seems to be the best way to flee the vicious spiral of
69 intense rivalry.

70 2 II.

71 3 Theoretical Propositions a) Proposition 1

72 Early innovation comes as a consequence of companies concentrated in geographical clusters, which makes the
73 quick diffusion of tacit knowledge (Audretsch and Feldman, 1996) possible. Tidd et al. (2005) define innovation
74 as changes affecting product, process, position or paradigm, i.e., changes in the underlying mental models which
75 frame what the organization does. They highlight the difference between incremental or evolutionary innovation,
76 and radical, disruptive or paradigmatic innovation. Paradigmatic innovation derives from Kuhn's reflections on
77 the structure of scientific revolutions (1962), stating that a paradigm is what members of a scientific community
78 share. Kuhn's notion of paradigms as a set of expected solutions to accepted problems is also applied to the
79 definition of technological paradigms (Peine, 2008). It turns out from its application that there are industries in
80 which different paradigms coincide and paradigm communities can cooperate to make innovation happen.

81 4 b) Proposition 2

82 New competitors are the advocates of product innovation at the preliminary stages while present incumbents
83 are the driving force of process innovation at the maturity stage (Klepper, 1992(Klepper, -1996(Klepper, -
84 1997;Mueller and Tilton, 1969; ??tterback and Suarez, 1993;Plog, 2001;Agarwal and Audretsch, 2001).

85 The lack of a commonly-accepted design at preliminary stages tends to foster product innovation outside the
86 standards and procedures of present incumbents, favouring new competitors. However, when a design is widely
87 accepted at the maturity stage, innovation tends to focus on the production process rather than on the product
88 itself which enhances incumbent position when faced with new entrants.

89 5 c) Proposition 3

90 A business model with open innovation makes the task of detecting changes in the environment easier (Kuhn,
91 1962;Abernathy and Clark, 1985;Durand, 2001;Chesbrough, 2007;Chesbrough et al., 2007;Peine, 2008).

92 Many outside changes may question a business model viability, especially when an industry reaches its carrying
93 capacity; hence, the importance of designing models with open innovation or the ability to incorporate innovative
94 activity developed by other companies.

95 6 d) Proposition 4

96 Market-pull innovation characterizes the service sector and, especially, the hospitality industry (Narver and Slater,
97 1990;Mansury and Love, 2007;Hall et al., 2009;Trigo, 2009;Hjalager, 2010).

98 The significant number of customer contacts in the spa industry allows for the development of close ties with
99 the customer which eventually brings about demand-pull innovation through the detection of articulated and
100 even latent market needs.

101 **7 e) Proposition 5**

102 The emergence and duration of stages is a function of the way an industry shapes innovation (Abernathy and
103 Clark, 1985) Market niche innovation is easily subject to imitation due to its reduced impact on present technology.
104 As a result, it does not allow for the development of a sustainable competitive advantage. Eventually, it only
105 triggers an increase in industry competition with the subsequent reduction of income.

106 **8 III.**

107 Case-study Analysis a) Justification TermaEuropa was selected for study due to its consideration as the first hotel
108 spa company that was launched in Spain (2001) to cater to emerging segment needs (the relaxation segment).
109 The company represents the transition from the older paradigm to the new one, the wellness and well-being
110 paradigm.

111 It involves a case study with multiple levels of analysis. Its justification derives from Yin's (1984) and
112 Eisendhardt's (1989) defence of the selection of a single case with multiple levels of analysis in order to better
113 illustrate the occurrence of a phenomenon in its preliminary stages.

114 Eisendhardt (1989) points out that case-study methodology combines ways of gathering data such as: analysis
115 of company files and records, interviews, surveys and observation. In the case of TermaEuropa, the instrument
116 used was analysis of company files and records with qualitative and quantitative information, observation and
117 empirical evidence.

118 The rigor of the analysis is demonstrated by the observation of the principles of internal validity: there is
119 a cause/effect relationship between the company's strategy and the achieved results. Construct validity: the
120 variables subject to study are set forth and described. External validity: analytical generalization based on the
121 theoretical propositions is possible; and reliability: the absence of random error is assured through the possibility
122 of examination of original documents by other researchers (Campbell and Stanley, 1963).

123 **9 b) Innovations**

124 The company's success is undoubtedly a function of its relentless effort to innovate as a way to remain competitive.
125 All the company's innovation derives from its relationship with the customer. The customer's opinions and latent
126 demands are subject to scrutiny through a monthly survey from the beginning of operations. Surveys address, in
127 a consistent way, quality and marketing issues, allowing TermaEuropa's executives to make decisions that closely
128 follow its target markets; this provides a high probability for success.

129 Table 1 presents some of the innovations implemented according to each category. The company itself can
130 be considered its greatest product innovation. Never before had a hotel spa chain been launched in the Spanish
131 market under the same brand with common procedures and operations while having different hotel designs in
132 each location. Offering packages well focused on the determinant motivations of customers is the second product
133 innovation. Reviewing TermaEuropa's company files and records one may clearly establish the link between
134 target market motivations and its product offerings meant to exceed expectations: Feeling well.

135 Relieving an ailment, being pampered, and getting away from it all? Our treatments aim at all of these
136 pleasurable sensations for our guests. Therefore, we train our therapists to do not only a good job but also to
137 convey tranquillity and make our client feel as if they were the only one.

138 **10 PRODUCT INNOVATIONS MARKETING INNOVA- 139 TIONS**

140 The company itself Marketing Intelligence Link of motivations with target markets-product/service offering and
141 programmes to relax, look better and feel well

142 **11 Relationship marketing**

143 **12 Product presentation Communications**

144 **13 PROCESS INNOVATIONS ORGANIZATION INNOVA- 145 TIONS New call center and its impact on customer quality 146 perception**

147 Implementation of a revenue management system

16 INNOVATIONS MEANT TO REDUCING COSTS AND INCREASING PRODUCTION CAPACITY

14 Standardization of service New compensation policy for hotel general managers

15 Innovations meant to increase demand

16 Innovations meant to reducing costs and increasing production capacity

153 rid of stress and ease our ailments, reproducing an environment that conjures up images of remote paradises, in
154 silence perhaps broken only by the sound of water.

155 It is precisely the thermal and mineral water used in many of our establishments what differentiates them
156 from the rest. After having a thermal bath or a shower, or after being massaged under the water, the skin is soft
157 and brilliant, and our body has assimilated some of the minerals in the mineral water.

158 Sleeping, perhaps dreaming. A large 2x2 bed which lets us sleep and dream. A good shower, warm decoration,
159 where elegance and efficiency coalesce in a harmonious ensemble. Our complimentary bath robe, free mini-bar and
160 amenities. You only have to sit in front of the window and contemplate the countryside.

161 Always walking. Guided hiking is the most demanded activity by our clients. The location of our spa resorts
162 surrounded by nature makes it possible to enjoy this activity intensely.

163 Meeting is a prize in health. An important decision taking, a well-deserved break for the team, a convention,
164 an incentive trip? Find out how to achieve unbeatable teams, making them live a memorable experience.

165 The call for target market motivations depicted above, is complemented with an array of programmes that
166 translate expectations into benefits to be obtained with multiple treatments: Packages: Relaxation-Beauty-
167 Therapy

168 To unwind, getting away from it all, feeling the thermal water's sedative powers.

169 To look better, achieving soft skin and a fresh look with beauty treatments reinforced by mineral water. To
170 feel well, relieving numerous ailments.

171 The traditional product offering at spas is not overlooked but presented in a different way under the name
172 feeling well that matches perfectly with its primary segment's (the relaxation segment) broad concept of health.

173 Product innovations are also derived from new product offerings under the terms "relaxation" and "beauty,"
174 unknown in most European spas until the dominant paradigm changed in the 1990s.

175 ii. Process Innovations An efficient running of daily operations underlies the success of TermaEuropa. Due to
176 the company's belonging to a market that was emerging, heavily fragmented and less professional, the introduction
177 of several management tools which were highly extended in other sectors has evolved into a phenomenon of The
178 first process innovation is the restructuring of the reservations system. Until the emergence of TermaEuropa,
179 the usual procedure was to collect reservations in manual form. Customers could make hotel reservations, but
180 not the reservation of treatments. This hindered efficient organization of service providing (timely allocation
181 of personnel and resources). When clients at hotels wanted to contract a service, they were told to remain in
182 their rooms waiting for a phone call from the treatment area, or even worse, to idle in the waiting room for an
183 indefinite period of time.

184 In the industry, it was widely considered that it was not possible to reserve a treatment room before the
185 client's arrival, since the treatment had to be decided upon by the spa physician. In fact, Micros-Fidelio, the
186 most extended software in the hotel industry, did not distribute spa management software until the late 1990s.
187 Hence the first spa management software had to be customized to resort needs.

188 The implementation of a call centre with highly trained operators in the hotel spa field produced a positive
189 impact on the TermaEuropa project. In one call, customers could reserve both room and treatments and were
190 advised what program to buy according to their objectives.

191 The standardization of service providing constituted the second critical process innovation. Until then, the
192 extended belief was that it was not possible to standardize treatments like massages in the way it is done in other
193 areas of hotel service. The experience of TermaEuropa shows that it is possible.

194 Massage standardization implies that therapists must understand they are generating an experience for the
195 customer where everything counts: a warm welcome, what it is said, how it is said, the atmosphere, and the way
196 of massaging the client. The urban legend saying that it is impossible to produce a massage equal to another
197 one since a pair of hands are not equal to another is hardly true. This fact does not belie the principle that
198 operating procedures may be established to determine how hands have to move, the exact pressure exerted or
199 the points to be covered. This obviously requires sound training sessions for therapists. Here, the advantages
200 are paramount: the company may focus on selling time since the customer does not notice any difference among
201 therapists, staffing becomes easier, workload is adequately distributed, and, eventually, labour costs are reduced
202 for the establishment.

203 Examining TermaEuropa's operations manual is highly illustrative of the steps taken in an effort to standardize
204 the service: Massage room preparation before the service: Light should be dimmed to recreate an intimate space

205 The décor and design of our facilities don't play a minor role in this whole process seeking to help us get
206 innovative. This has triggered a virtuous effect in all the company departments.

207 Temperature must be adapted to the client's comfort The room must be equipped as established Information

208 about workload Customer service Procedure to welcome the client How to communicate the client the procedure to
209 follow How to apply the massage Client's farewell iii. Organizational Innovations Two organizational innovations
210 are outlined: the implementation of a revenue management strategy at La Alameda Day Spa (one of Terma
211 Europa's properties), and the linkage of Terma Europa's management salaries to the company's productivity.

212 The application of revenue management within the spa industry is still in its infancy. However, it is an
213 innovation with the capacity to generate revolutionary effects if being applied from a strategic viewpoint, allowing
214 for value capture for the company together with value creation for the customer (Kimes, 2009).

215 Revenue management, yield management at first, was born in the field of the airline industry as a way of
216 obtaining the maximum possible yield per available seat. The hotel industry incorporated this tool later on as a
217 way of obtaining better performance per available room, even per available seat in a restaurant. In essence, it is
218 about selling the adequate capacity to the adequate customer, at the right moment and at the right time.

219 Hotel rooms, restaurant seats, and treatment rooms (and available spaces for sale at activity pools) are
220 perishable inventories. In these kinds of industries, the lack of occupancy or sale of an available capacity entails
221 two types of costs (Kimes, 2009): a labour cost from unused workforce and an opportunity cost from the income
222 lost as a result of the lack of occupancy of available capacity for sale.

223 The first stage in developing a revenue management strategy consists of evaluating demand.

224 Figure one describes how the demand evolves at La Alameda Day Spa by time of the day and week day. The
225 representation of the data reveals some conclusions regarding demand behaviour and facilitates the measures to
226 be taken in order to obtain a better yield in those facilities.

227 Source: Terma Europa's company files and record The demand analysis is fully developed, covering different
228 services, times and days in order to develop a guide to help in forecasting demand and correctly allotting
229 human resources and products. This strategy implementation has positively impacted the operation's bottom
230 line, discarding the previously ubiquitous general discounting that was clearly damaging the spa's returns, and
231 endorsing fenced rates.

232 Herein follows some examples of how the company implemented the revenue management strategy on the
233 internet. Criteria for implementing online reservations according to revenue management protocol for the Roman
234 Bath and the Activity Pool:

235 The client can make reservations on the following products (treatment reservations will also be available at a
236 later date): Roman Bath and Activity Pool.

237 All the published rates are VAT included. There are different prices according to days/times/services.
238 Management may change the rates.

239 To obtain a discounted rate, there is no time span for these two facilities, however, for treatment reservations
240 some time period will be demanded to allow for adequate staffing; the reservation should have been entirely paid;
241 reservations must be made through the web.

242 Cancellation policy: there is no possibility to cancel, only to move the reservation to another day/time if
243 available.

244 Table ?? shows a display of prices and services offered throughout the week under the principles of revenue
245 management. Rates are fenced to specific times to allow for product differentiation and targeting of different
246 market segments.

247 Table ?? : Fenced rates for the activity pool according to time and weekday Source: Termaeuropa's company
248 files and records Another organization innovation with a positive impact on productivity is the linkage between
249 the salary compensation of hotel spa general managers to the fulfilment of an array of financial and quality
250 objectives (see table ??).The study of the Ratios of Control for TermaEuropa hotel spa General Managers shows
251 Kaplan and Norton's influence on TermaEuropa's upper management in the sense that financial results are not
252 the only critical aspect to be considered when analysing companies. Staff capacity, the fulfilment of established
253 procedures and client satisfaction are also key factors for success. Financial data give an overall picture of
254 the company at the present time; however, quality ratios anticipate future value creation for the shareholders.
255 General Managers obtain a quarter of their bonuses if their customers rate their properties 4 out of 5 on average,
256 or express satisfaction more than 80 per cent of the time. Their bonuses are also dependent on financial concerns.
257 The so-called magic formula stipulates that cost of sales must not go beyond 14 percent of net sales (5 percent
258 in the case of a day spa); wages should be 34 percent of net sales or less; the rest of non-assigned operating costs
259 should not go beyond 20 percent of net sales. Finally, salary compensation is also determined by internal quality
260 surveys and independent external surveys regarding tricky issues such as the presence of bacteria at water sources
261 or the kitchen.

262 Instruments used for data collection in order to establish manager bonuses are: the satisfaction survey, the
263 tabulation system and the evaluation form. Next, the 2007 satisfaction index for TermaEuropa spas and the
264 standard customer survey are displayed as figures 2 and 3, respectively.

265 Source: TermaEuropa's company files and records Por favor, valore del 1 al 5 cada uno de nuestros servicios.
266 Siendo 1 la nota más baja y 5 la más alta. Please, fill in the blank boxes with your marks for our service, being
267 1 the lowest score and 5 the highest one.

268 L L K J J L L K J J These innovations take place in the field of marketing intelligence, relationship marketing
269 and communications. Marketing intelligence emphasizes that knowledge of market trends, consumer viewpoints
270 and competition are key factors for increasing customer data bases to reinforce links with the customer and

18 D) PROPOSITION 4

271 promote their loyalty. It is derived from the fact that a company's customer data base constitutes its most
272 valuable asset (Lewis and Chambers, 1989).

273 Communication is one of the marketing-mix tools meant to tangibilize the product/service offering (Renaghan,
274 1981). Some instances of the communication strategy followed by the company are reproduced to illustrate its
275 business concept. The brochure of figure four shows how the company attempts to connect with its primary
276 target market's expectations: a massage and water treatment to encourage sales. England, the leading country
277 in the Industrial Revolution in the manufacturing sector, is also a country at the forefront of the leisure industry,
278 developing the first thermal spa resorts in the late 18th century (Bacon, 1997). Spa resorts were concentrated in
279 that country reaching the figure of 200 units by the mid-19th century. This reinforces proposition number 1 that
280 claims preliminary innovation tends to appear in geographic clusters.

281 renewed German spa towns. New entrants are also the protagonists of product and process innovation when
282 amenity spas appeared for the first time in the last quarter of the 20th century; when the wellness paradigm
283 prevails, most of the companies that capitalize on relaxation trends are new entrants from the hotel sector and
284 without links to the hospitality sector (Weisz, 2001; Orbeta Heytens and Tabacchi, 1995).

285 17 c) Proposition 3

286 Proposition number 3 holds true through recent history. The growth stage of the industry extends up to the last
287 quarter of the 19th century when maturity comes and, eventually, declines due to the questioning of the Hygienic
288 movement -whose principles fostered the change of environment, like the one typically experienced at a stay in a
289 spa, as the best remedy for b) Proposition 2 However, contrary to proposition number 2, process innovation was
290 carried out by new entrants, the any disease-and the rising competition of beach resorts (San Pedro, 1994).

291 The decline was not overcome until the 1960s in the US (Tabacchi, 2010). The new destination spa did not
292 have anything to do with its predecessor (radical innovation), nor were its customers the same, nor were its
293 treatments, putting aside thermal waters and opting for strict diets and strenuous exercises as the way to beauty.
294 The radical US change may be considered an architectural one in the sense depicted by McGahan (2000) because
295 the principles of the thermal paradigm are subject to substitution.

296 In Europe, however, the traditional destination spa survives, slowly incorporating (incremental innovation)
297 some of the services provided by American spas (Bywater, 1990; Intelligent Spa Pte Limited, 2009). The influence
298 of the fitness craze is more evident in the increasing number of fitness day spas that started to open since then.

299 The fitness destination spa model was gradually replaced by the amenity spa business model in the US in the
300 90s (evolutionary innovation) (Orbetta Heytens & Tabacchi, 1995; ??an Putten, 2003).

301 In Europe, the transition from the pseudotraditional destination spa to the amenity spa business model took
302 place in a more drastic way, bringing about a new paradigm (radical innovation) (Bell & Vazquez-Illa, 1996).
303 The spa sector experienced radical innovation due to the questioning of the thermal spa paradigm in order to
304 open industry establishments to younger clients yearning for relaxation treatments. This was very distant in its
305 concept and execution from the traditional rheumatic treatments meant for the older segments.

306 Only those spa business models with open innovation were able to adapt its value proposition to the emerging
307 relaxation segment, both in US or Europe (Les Dossiers de la Lettre Touristique, 1992; Bywater, 1990; Orbetta
308 Heytens and Tabacchi, 1995). The analysis of the TermaEuropa Spas Company clearly supports this.

309 18 d) Proposition 4

310 Most innovations in the industry are of a demand-pull type (proposition 4), as a consequence of multiple customer
311 contacts (McNeils and Ragins, 2005; Montenson and Singer, 2003). Demand-pull innovation presides over the
312 evolution of the industry as previously demonstrated in the case study.

313 Table ??our displays several innovation proposals relating to the spa industry, all of a demand-pull type.
314 The list differentiates between innovations aimed at increasing product demand or marketing innovation-
315 sand those meant to improve production capacity and cost reduction -process and organization innovations
316 (OECD/European Communities, 2005)-.

317 Some product innovations indirectly generate cost reductions, such as in the case of spa suites, short treatment
318 menus or low-cost models. Within marketing innovations, the creation of theme packages stands out. It is
319 worth noting the implementation of revenue management strategies as an organizational innovation, and the
320 redesign of service providing for emerging segments as process innovation, among innovations aimed at increasing
321 production capacity. kind of innovation present in the industry -market-niche innovation, where mere refinements
322 in technology may bring about new linkages with the market and affect incumbents' position while reducing entry
323 barriersdetermines the current intensity of competition and the shorter duration of life cycle stages. Furthermore,
324 this kind of innovation is easily subject to imitation due to its reduced impact on present technology (Abernathy
325 and Clark, 1985), which prevents companies from gaining a sustainable competitive strategy based on the features
326 of their innovations. The turbulent state of the industry and its predominant business model characterized by
327 inadequate product design, on the supply side, and confusion or/and discontent, on the demand side (Vazquez-Illa,
328 2014), are explained by market-niche innovation that shapes the spa industry. This kind of innovation is derived
329 from a specific managerial culture which is very dependent on their ties to customers (demand-pull innovation
330 characterizes the industry as stated previously), allowing for constant instability regarding the dominant design.

331 Since innovations are not of an architectural scope, it is easier for new entrants to foray into the market through
332 mere refinements in technology which brings about new ties to customers.

333 V.

334 **19 Proposal of new spa business models**

335 As a result of the preceding analysis, two new business models are proposed that incorporate and further develop
336 many of the innovations pointed out in previous sections.

337 Low-cost concepts have lately been at the forefront of the business arena, and in every single sector, as a general
338 attempt to determine operating models allowing for good quality products at affordable prices and, therefore,
339 outstanding profits (Montenson & Singer, 2003; Marti, 2010). Furthermore, Johnson (2010) states that there is
340 a business opportunity for a company capable of providing IKEA-style hospitality: a company that is highly
341 focused on its target market permitting differentiating and affordable service providing.

342 In the last two decades, most amenity spas have mistakenly reproduced the destination spa business model
343 without counting on its core segment: which are followers of a holistic approach to the use of spa services and,
344 as a consequence, potent consumers of a variety of treatments. The results of that strategy have globally been
345 very poor, mainly for those hotels without a local market to target. Most hotel customers are peripheral spa
346 consumers (they never book a treatment) or, that being the case, it is a relaxation related service, i.e., a plain
347 massage (Tabacchi, 2010; ??eri et al, 2007). As a result, as a norm, developing large establishments with an
348 array of services fully resembling the destination spa business model is destined for failure.

349 this is what has prevented them from fully taking advantage of social trends in fitness and relaxation. The
350 tendency to replicate the destination spa model has brought about treatment rooms equipped with medical
351 appliances nobody uses or sophisticated baths subject to unending amortization periods. At the same time,
352 collective areas are scarce when their return rate is notably superior to individual treatments' rate, whose ratio
353 of one employee per customer becomes a heavy burden to assume. The growth stage of the spa product cycle
354 has allowed it, however, to capitalize on fitness and relaxation trends, although something is changing on the
355 horizon.

356 **20 a) Low-cost spa**

357 The proposed low-cost spa (figure 7) is a concept designed to cater to peripheral consumers' needs (the fact of
358 being a secondary segment comes from its lack of conscious empathy with the industry's philosophy, not because
359 its numbers are not critical at vacation times). This customer mainly goes to spas at vacation periods and
360 never books a treatment. This consumer only patronizes spas for having a good time and for using its collective
361 and mainly water-related facilities: activity pools or water courses with pools at different temperatures, sauna
362 and steam rooms. Thus, all the spa treatment rooms, costly to build and costly to equip, become unnecessary.
363 Furthermore, labour costs are heavily trimmed as a consequence of reduced customer contacts.

364 The proposed concept is designed to question the three main features of the traditional spa business model:
365 capital intensity; people intensity and quality control intensity. The low-cost spa concept is a back-to-basics
366 strategy giving hospitality customers what they really expect from a spa experience and, thereby, reducing spa
367 overhead and dramatically improving its results.

368 The shift to low-cost spas is likely to be considered as the next paradigm innovation in the spa industry, lowering
369 prices and costs to open its services to larger markets. -The positioning statement seeks to develop collective
370 areas such as activity pools, quite suitable for group use (family or friends), which provide great satisfaction to
371 their users and allow for sharing a common enjoyable experience. This reduces a spa's customer contacts which
372 lowers labour and training costs. This justifies a medium-low price strategy that fosters the scope of the market,
373 allowing for the targeting of the peripheral consumer and the depicted positioning statement. -The targeting of
374 the peripheral consumer is crucial for the success of the model. While a secondary segment for the spa industry,
375 peripheral consumers are great in numbers and necessary clients to fill spas at vacation times. This spa user does
376 not reserve individual treatments, hence spas save construction costs for treatment rooms and those incurred in
377 furnishing rooms. This reinforces the medium-low pricing strategy and triggers the already stated consequences.
378 -The medium-low pricing strategy has the positive effect of enlarging the target market to become an attractive
379 offering even for peripheral consumers.

380 **21 b) Low-luxury spa**

381 The low-luxury spa (figure 8) is a variety of the low-spa concept. It is meant to cover the relaxation segment's
382 needs. This consumer considers spas as places for relaxation and is the predominant client at most spas. Their
383 sought after spa experience is that of a relaxation massage followed or preceded by a sort of relaxing bath.
384 Standardization of the service and product bundling are key factors of success for this kind of spa in order to
385 control costs while preserving quality perception. The choices bring about the consequences set forth herein.

386 -The positioning statement leads to developing collective areas such as water courses, and treatment rooms.
387 This implies product bundling in order to tangibilize the offering to the target market. The tangibilization must
388 incorporate the target segment's sought-after experience of a massage plus a water treatment. This requires a
389 revenue management strategy to obtain the highest yield per available space and the highest productivity per

390 employee; this supports a moderate pricing strategy requiring the standardization of the service providing to
391 assure a cost control strategy that eventually favours the targeting of the relaxation segment and a positioning
392 statement of escape and relax.

393 -The profile of the relaxation segment is the most common at spas worldwide (PKF, 2009; Stanford Research
394 Institute, 2013). The satisfaction of its expectations activates the series of consequences already described. -The
395 moderate pricing strategy implies the standardization of service as a way to reach the necessary cost control
396 making the targeting of the relaxation segment with a positioning statement of escape and relax possible.

397 VI.

398 22 Conclusions

399 The research's objectives were the creation of theory to help in the explanation of how innovation occurs in the
400 spa industry and how the kind of innovation present in the industry determines its evolution. The undertaken
401 research yields the following results: 1. Preliminary innovation happens in clusters.

402 23 Spas with open innovation have always anticipated

403 and capitalized on changes in the environment. 3. Market-pull innovation rules the industry as a consequence of
404 its multiple customer contacts.

405 24 Low-Luxury



Figure 1: S 7 Global

406 1 2

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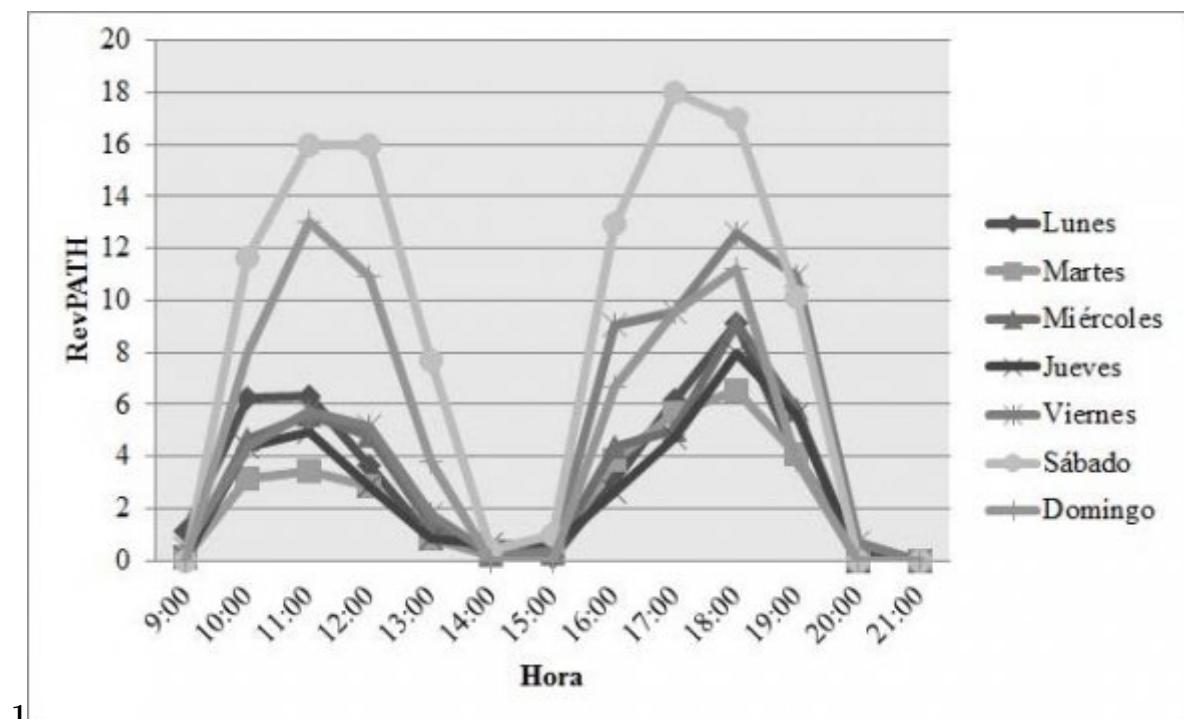


Figure 2: Figure 1 :

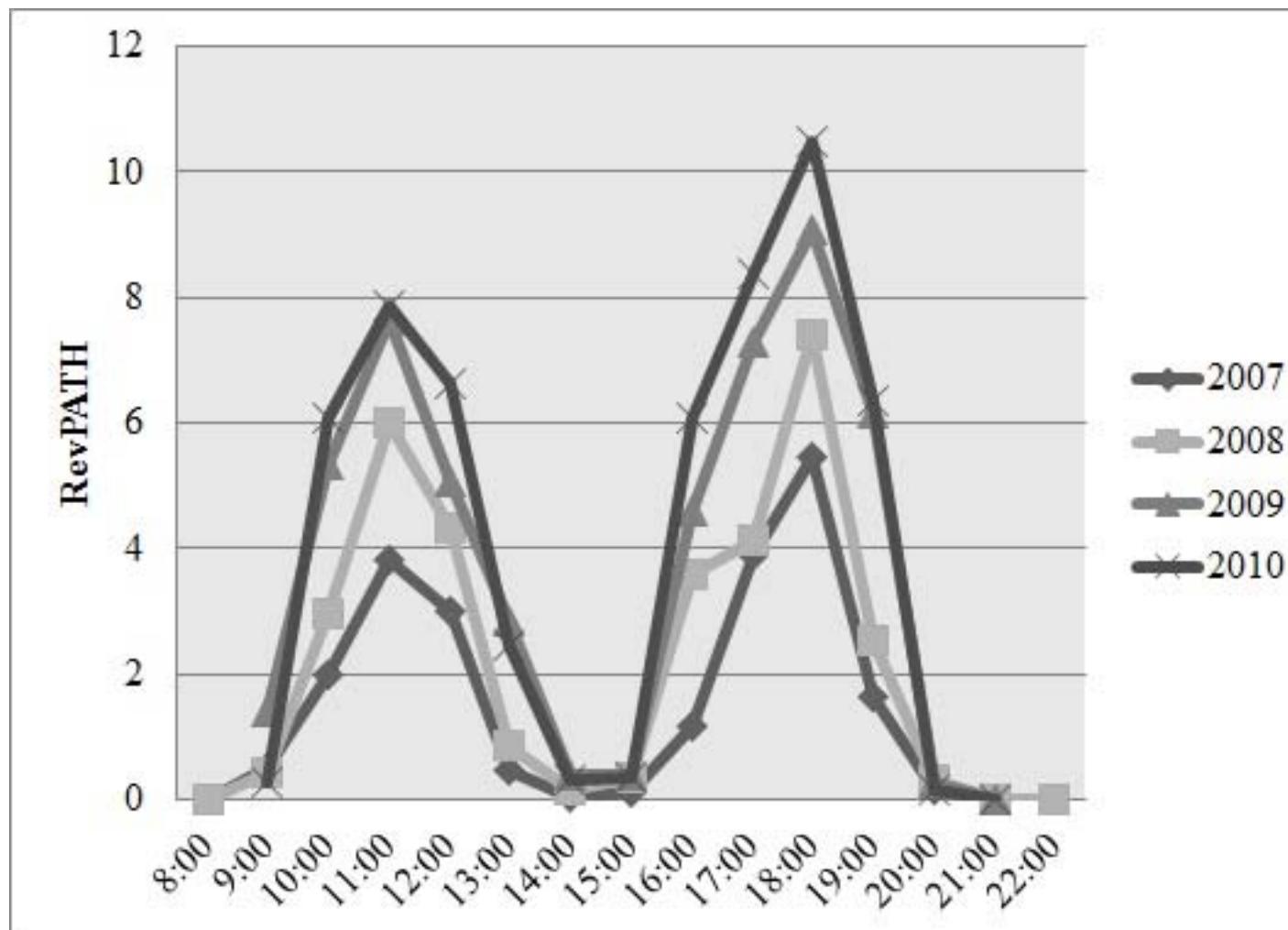


Figure 3:

Ratios de Control y Asignación Bonus para Directores TermaEuropa		
Mínimos a Alcanzar Ligados al Cobro del Salario Base		Bonus por Encima de Mínimos: 20%
1	Índice de satisfacción del cliente: 80% (4 puntos sobre 5)	
	Procedimiento de control: Encuestas	
2	Cruzado mágico: TE: 14-34-20 (consumos-salarios-operativos no asignados)	
	Procedimiento de control: Cuenta de Explotación	
	Superación auditorías internas: 4 puntos:	
		1 2 3 4 5
3	Limpieza	
	Servicio	
	Mantenimiento	
	Organización	
	Superación auditorías externas:	
4		Sí No
	Presencia Legionella	
	Presencia Bacterias Cocina	

Figure 4: Figure 2 :



BALNEARIOS TERMAEUROPA PREMIA SU FIDELIDAD



45273

Figure 5: A 4 - 5 - 2 - 7 -Figure 3 :



escápate y relájate...
...cualquier día del año

En un entorno natural, junto al río Tajo

Aguas declaradas
mineromedicinales, hotel
totalmente renovado,
a poco más de una hora
de Madrid,...

Información y reservas
901 222 902
www.termaeuropa.com

4  **TermaEuropa**

Balneario
Real Carlos III 

Figure 6: Figure 4 :

Valencia ya tiene **Balneario**

Balneario
La Alameda



Nuevo Balneario La Alameda

Auténticas aguas termales en pleno centro de la ciudad

En el Balneario de La Alameda sentirás el poder curativo de las aguas termales, encontrando instantáneamente para relajarte y sentirte bien, obtendrás una piel suave y de aspecto renovado mediante tratamientos de belleza potenciados por sus aguas minero-medicinales, además de ayudarte a mejorar de numerosas dolencias.

En el Balneario de La Alameda contamos con las mejores instalaciones termales; piscina activa, termal romana, gimnasio y mucho más...

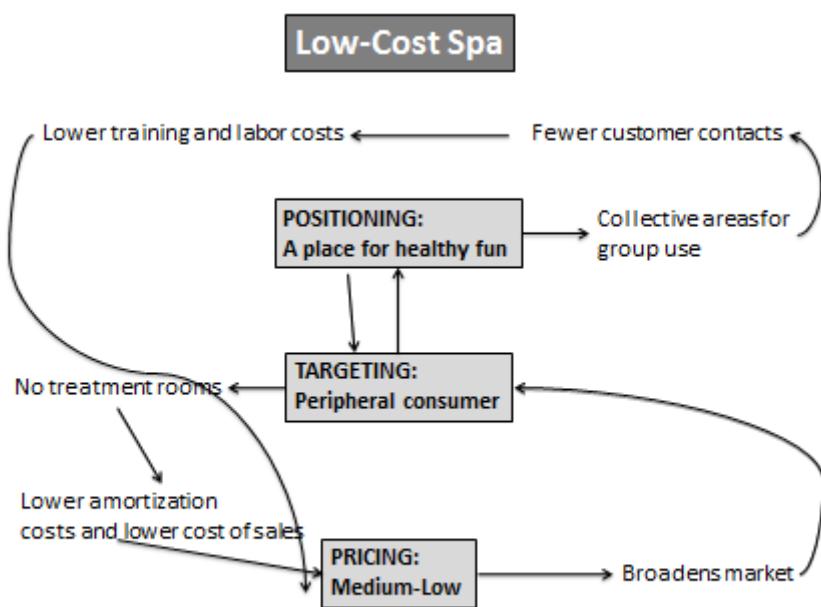
¿Te lo vas a perder?

Una muy sana costumbre

C/ Almede de Saboya, 14 (junto al Paseo de La Alameda)

TermaEuropa

www.termaeuropa.com



6

Figure 8: Figure 6 :

1

Source: own

i. Critical Product Innovations

Figure 9: Table 1 :

4

Year

2

INNOVATIONS AIMED AT INCREASING DEMAND

PRODUCT INNOVATIONS:	MARKETING INNOVATIONS:
TREATMENTS AND FITNESS (Mc- Neil & Ragins, 2005)	THEME PACKAGES (Monteson & Singer, 1992)
CHOICE OF THERAPIST GENDER (McNeil & Ragins, 2005)	BASIC PACKAGES (Monteson & Singer, 1
LESSENING SPA MENU (Monteson & Singer, 2003)	SELLING OF BRANDED PRODUCTS (Reena, 2007)
SPA CLUSTER SUITES DEVELO- PMENT (Reena, 2007)	PRESENCE IN THE RESORT (Monteson & Singer, 1992)
CONDO-SPA PARA "YOUNG OLDS" (Dwight, 1991)	POSITIONING (Monteson & Singer, 1992)
SPA COSMETICS BRAND (ISPA, 2009)	BRIDAL SHOWERS (Monteson & Singer, 1992)
LOW-COST MODEL (Rogers, 2008)	CREATE MANLY NAMES (McNeil & Ragins, 2005)
	CROSS-SELLING STRATEGIES (Mc- Neil & Ragins, 2005)
	FIRST-TIME WEB USERS (McNeil & Ragins, 2005)
	LIFESTYLE SEGMENTATION (Vyncke, 2002)

INNOVATIONS AIMED AT REDUCING COSTS AND INCREASING PRODUCTION CAPACITY

PROCESS INNOVATIONS:

IN-ROOM MASSAGES (Cavallari,
2008)

ORGANIZATION INNOVATIONS:

FLEXIBILITY AND VERSATILITY
(Monteson & Singer, 1992)
EMPLOYEE CATEGORIZATION
(Monteson & Singer, 1992)
REVENUE MANAGEMENT (Kimes,
2009)
LOWERING SPA LABOR COSTS (Mon-
teson & Singer, 2003)

Source: own

e) Proposition 5

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Figure 10: Table 4 :

5. Easy to imitate niche-creation characterizes the industry	innovation		
Bundling product	Spa	POSITIONING: Escape and relax	Collective facilities (water course), treatment rooms
Sought-after experience: Massage plus water treatment	TARGETING: Relaxation segment	PRICING: Moderate	Cost control
Revenue management			Standardization of service

Figure 11:

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